



International Food and Agribusiness Management Review
Volume 9, Issue 2, 2006

Ross McLaren, Retired President and CEO, Shaw's Supermarket, Inc. – The Changing Consumer: Demanding but Predictable

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Abstract

The food retail business has undergone radical changes in the 21st century because of changing consumer demand in the market. The changes in consumption patterns are largely influenced by higher income and the expenditure on food as a percentage of disposable income, demographic changes, urbanization, improved transportation, trade relations, and consumers' concerns with regards to product quality and food safety. There have been observed differences in the way consumers in developed and developing countries react to income changes. For developing countries, higher income levels foster an increase in the demand for meat products which is why livestock sales have generally improved in developing countries. In more mature markets, consumers are allocating income to high value processed foodstuffs, a wider range of products to choose from, indulgence and better product quality. The demand for organic food products has increased, associated with consumers' beliefs that consuming organic products is the only way they can protect themselves from consuming toxic substances contained in pesticides and veterinary drugs. In addition, consumers require product labeling and product traceability on produce, as quality assurance instruments, to further protect themselves from food safety risks. Affluence in developed countries is giving consumers' the confidence to demand anything from the market as long as they will be paying for their demands. It is therefore important for food retailers to be able to anticipate and respond to the changes in consumer demands.

Keywords: Changing consumer, demanding, predictable

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Introduction

An interview with Ross McLaren, a retired President and CEO of Shaw's Supermarkets Inc. (USA), addressing four key issues associated with changing consumer demands and the food retailer's perspective:

1. Shaw's Supermarket industrial organization and clientele
2. Consumers buying behavior
3. Strategies that are put in place to cope with the changes in consumer demand
4. Strategic direction

Industrial Organization and Clientele

Shaw's Supermarket Inc. was established in 1860 by George C. Shaw. In 2006, it is one of the leading grocery stores in the North-Eastern United States (US), operating 200 food and drug stores with approximately 30,000 employees. Shaw's serves a diverse, multi-racial/multi-ethnic consumer base. Some of the groups and nationalities represented in the clientele include Hispanics, Jews, Portuguese, Latin Americans, African Americans, Italians, Polish and other ethnic communities. Given that the US has a vibrant immigrant history, Shaw's had a modular approach to each store's product range. For stores located in the higher income urban areas, they specialize in vitamin and health supplements, while stores in young professional, metropolitan residential areas they have Sushi bars that are less popular in the rural locations.

Consumers Buying Behavior

McLaren revealed that, as with retail industry trends in the last 5 years, Shaw's share of sales has declined. The main reason for this seems to be that the expenditure on food as a percentage of disposable income has fallen to 6 or 7% today from 10.7% in 1997. This is in line with the known tendency for improved purchasing power to cause demand to change towards high-value service products like processed and ready-made food which are more convenient.

In recent years with improving disposable income and changing lifestyle patterns, consumers require more convenience in their consumption. They demand more of prepared meals that must come as ready-to-prepare or ready-to-eat which is the reason why the market share of supermarkets have relatively gone down while fast-food chains and restaurants are recording the highest sales ever. This situation is the same worldwide and not restricted to the United States.

Today's consumers are choosier. They demand high quality and nutritious foodstuff which is why the demand for fruit and vegetables have increased and this is where supermarkets are gaining their market share these days. Sales shares for

supermarkets are expected to improve in the coming year. Some of the factors contributing to this change will be the aging population worldwide. It is a known fact that the 'greying' nation prefers home-cooked meals and they want more of vegetables and fruit in the diets. There is evidence in literature that by 2020 fruit and vegetable sales would have grown by 4.2% and this is what will improve the supermarket sales share.

McLaren revealed that consumers today are more informed and they are highly concerned about the environment and food safety issues. To this end, consumers now demand more of natural and organically produced foods in the belief that consuming organic foods is the only way they can protect themselves from consuming toxic substances contained in things like pesticides or veterinary drugs. The increasing food safety concerns led to the need to put in place product traceability regulations. It is anticipated that being able to trace products back to the farm where they have been produced will protect consumers from ingesting foreign substances that may be harmful to their health.

Changes in consumers' demand are also a product of increasing diversity of the population served. Consumers are constantly traveling and relocating, thus new ethnic groups are being added to the clientele all the time. At the same time the increasing number of migrants coming to America from Africa, Asia, etc, also bring in new demands in the food retail business. Once supermarkets stock these foods more customers become interested in the new range of products on the shelves and a whole new pattern of consumption and expenditure is established.

Airlines have been playing a major role in providing year-round logistics to connect markets. A good example would be the role played by airlines in transporting cut flowers from Southern Africa to the Western markets. As US consumers became more affluent, their demand for cut flowers grew rapidly, even off season. This drove the market to seeking alternative suppliers, particularly in the Southern Hemisphere. Because of the transport logistics that were often non-existent, retailers were directed to countries like Kenya, Zambia and Zimbabwe that had regular air links already established. This is how the US came to import cut flowers from Zambia because the Western consumer's ignore product seasonality. McLaren observed that US consumers are not really concerned about the origin of their products; what matters to them is getting the product from the market when they want it.

The discussion went on to determine if the changes in consumer's demand were rational or influenced by the media. According to McLaren the word 'rational' in relation to consumers' demand is non-existent because what consumers say is not what they do. This point was illustrated by the attitude of fast foods consumers. While few would admit that they eat fast foods like McDonalds or Burger King, these fast foods chains hold the largest market shares in today's food retail

business. McLaren revealed that while he was at Shaw's a survey was conducted to determine how much consumers use Shaw's. From this survey they established that a number of consumers did not use Shaw's because it was expensive when compared to similar stores. When they were asked to elaborate on what they meant by 'expensive' they said that Shaw's offered a wide range of products to choose from which creates an irresistible impulse to buy more than a single product and consequently spending more than originally intended.

The interview continued with a discussion to determine if these changes in demand are a result of deteriorating food quality and falling health standards or just media hype. McLaren maintained that the recent introduction of food standards and control measures in the market are not based on deteriorating standards but are an influence of media hype that advocate strict regulatory measures in the market. The recent demand for product traceability is a result of the media blowing incidences like the mad cow disease outbreak out of proportion or increasing food safety concerns that are sensational rather than factual. For example, the media advocates that genetically modified foods are not good to the point that very few consumers want to buy these products, yet there is very little evidence that these foods are harmful.

Identifying Consumers' Demands and Means to Meet Them

A question was then raised as to what sorts of changes have been prevalent in the market and what strategies Shaw's is employing to respond to these changes. McLaren revealed that consumers are asking for less additives, and more nutritious foods with minimal allergic reactions especially in the drug stores. This is a challenge for the retailers because their existence depends so much on what consumers want. Today most of the products on Shaw's shelves satisfy the traceability requirements and labeling needs to meet consumers' demand.

While McLaren was with Shaw's he chaired a marketing strategy committee that met every two months to discuss the market as a whole. The committee spent time discussing data provided by the company's customer service department to gain an insight into consumers' wants, what they are happy with and what they are not happy with. This market research analysis, plus the media articles to which Shaw's subscribes, helped them spot "fashion" demands in the market relating to food and health issues. This helped Shaw's management to predict almost with certainty what consumers want. McLaren believes that there is nothing that beats your eyes and ears as a retailer for getting the right information about trends. For this reason, he had a team that spent time on the shop floors and also visited competitors at home and in other countries to get first-hand information of what consumers really want. According to McLaren, 'retailing is about meeting consumers' needs and good retailing is anticipating their needs before hand'.

The discussion indicated that food retailers are making considerable investments to meet consumers' demand, such as ensuring that producers comply with consumers' demands like product traceability, labeling and certification requirements. Food retailers, like Shaw's, observed that if they provided consumers with what they wanted they would buy the product and would be loyal to their market requirement.

We further discussed some of the impacts of consumers changing demand in terms of products that Shaw's stock, sources of supply and quality assurance they give to their customers. What unfolded from this discussion was that Shaw's has started stocking more of healthy, nutritious and convenient products that suit today's consumers' lifestyle. Since their suppliers are both domestic and international, Shaw's requires that all their suppliers, especially those from areas classified as high risk areas such as Africa, to label products and comply with traceability regulations.

Strategic Direction

The role that Research and Development Units should play with the changing society cannot be overemphasized because some of these recent changes need scientific research support. For example, it has been revealed that recently consumers are moving away from cow's milk consumption to soy milk, probably because of rising lactose allergies or the increase in the number of strict vegetarians and vegans. It is the role of research units to provide information regarding health benefits of such a change. The role of governments in this regard would be to provide policy regulations to protect consumers from consuming substandard products. Governments are doing their best to protect consumers though they sometimes feel that the protection given by governments is inadequate.

Analysis and Conclusion

According to McLaren most of these changes in consumer demands are not based on deteriorating market conditions but are just media influence that shapes consumers' demands. The media has been providing consumers with so much health and nutrition information that do not even last. For example, not so long ago the Atkins diet was the most popular diet for the US market which encouraged people to eat more protein and less carbohydrates.

Without question, consumers' demands are changing every day but most of these changes are predictable. The challenge for food retailers is to position themselves in such a way that allows them to adjust to these changes. Retailing is about providing consumers what they want while good retailing is about predicting consumers' demand before hand, then the desired harmony will be achieved in the system with everyone being a winner.

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